



## **Contract Management and Government Funding: An Instructional Case Study**

Robert Gilmour, Manukau Institute of Technology, Auckland, New Zealand,  
Bob.Gilmour@manukau.ac.nz

Victoria Wise, School of Accounting and Corporate Governance, Faculty of  
Business, University of Tasmania, Australia, Victoria.Wise@utas.edu.au

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## THE AWATERE AFFAIR

Robert Gilmour, Manukau Institute of Technology, Auckland, New Zealand  
 Victoria Wise, University of Tasmania, Hobart, Australia

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### CASE DESCRIPTION

*The primary subject matter of this case is the procedure for contract management in relation to the application for and granting of government funding to organisations. A secondary issue examined in the case concerns the adequacy and effectiveness of governance and accountability controls within organisations receiving public funds for the external supply of services. The case requires an understanding of audit planning and good governance and accountability principles.*

*This case has a difficulty level that makes it most suitable for senior level students in an Auditing/Corporate Governance/Business Ethics course. The case is designed to be taught in three class hours and would require about eight hours of out-of-class time which includes reading the case material and the articles and other items listed in the references.*

### CASE SYNOPSIS

This case study focuses on major issues raised in the Report of the Controller and Auditor-General on its 'Inquiry into Public Funding of Organisations Associated with Donna Awatere Huata MP' (NZAO 2003) and the subsequent fraud trial of Awatere Huata in August 2005. The initial task for the student is to review the policies and procedures of the government organisations providing funding to applicant organisations, and the internal accounting, governance and accountability structures of the fund recipients. Students can then use the details provided in the case information and references to develop internal control and corporate governance strategies appropriate for use in an environment characterised by the need for accountability for public funds.

## Background

In 2005, former Member of Parliament, Donna Awatere Huata faced six charges of fraud and one of attempting to pervert the course of justice (Binning & NZPA 2005). Awatere Huata, and her husband Wi Huata, were charged with fraudulently using cheques worth \$82 409 from a taxpayer-funded trust, the Pipi Foundation, and with attempting to pervert the course of justice by fabricating documents to cover the alleged frauds (McLoughlin 2005).

Awatere Huata established a trust organisation, the Pipi Foundation, in 1999 to undertake an Education Ministry contract to teach low-income children using a four-minute reading program she developed in the 1970s. The objectives of the Pipi Foundation are associated with a “pre-school instruction for parents initiative aimed at developing reading, language, maths, physical development, and social skills of pre-schoolers” (NZAO 2003, p.123). The four minute reading program was regarded by some educators as “one of the more effective ways of combating illiteracy” (Du Chateau 2005). Auckland University professor of education Tom Nicholson said the program had been “a very effective attempt to try to do something” about literacy at a time when there was a lot of smugness about perceived literacy levels (McLoughlin 2005).

The Pipi Foundation was given more than \$838 000 in government funding assistance over a three-year period from several organisations (see Table 1). New Zealand’s Serious Fraud Office alleged that a \$30 946 cheque drawn on these funds, was used to finance Awatere Huata’s stomach-stapling operation and for her personal expenditure (Anon: NZ Herald 2005a). Mark Stevens, an accountant, was asked by Awatere Huata to prepare a report because the parliamentary party of which she was a member, the ACT Party, wanted to know whether there was any substance to claims in the popular press, that money from the government funded educational trust was being misused. Stevens said that Awatere Huata told him the cheque for \$30 946 was cashed and used to pay a number of other people in relation to foundation business. He said that there were no accounts, a shortage of source documents and missing minutes. He advised that a proper cash book, source records and a full set of accounts were needed to reconstruct minutes. Stevens produced a report exonerating Awatere Huata, stating that she received no funds directly or indirectly and that all foundation funds were expended in accordance with the trust deed. He said that Awatere Huata had a reasonable amount of income and it appeared she had given him a valid explanation for how the operation was financed. Stevens agreed with Awatere Huata’s lawyer, that the foundation was run “quite informally”, something he said was a serious problem (Anon NZ Herald 2005a).

A Serious Fraud Office forensic accountant, Joanne Pettifer, told the jury in the Awatere Huata fraud trial, that many of the financial documents she would have expected from an organisation such as the Pipi Foundation were absent. Pettifer said that in the three years to August 2002, the foundation received deposits of approximately \$840 000, mostly from the Ministry of Education. Cash cheques totaled more than \$169 000 and payments to Awatere Huata entities more than \$177 000, while schools received \$228 379. Ms Pettifer said her observation of the use of the \$30 946 cheque differed from Stevens’ report. A forensic computer analyst from the

Serious Fraud Office added that invoices had been created “some years after the dates recorded on the documents” (Anon NZ Herald 2005b).

The prosecution lawyer, Fardell, said the trial was about Awatere Huata’s dishonest dealings with Pipi Foundation funds. The Pipi Foundation’s bank account had been used as if it were for personal and private use. “Why would there be \$170 000 going out in cash cheques? Cash cheques to that level when you are dealing with government funding for a specific purpose do not make any sense at all” (Anon NZ Herald 2005c). A later attempt to reconstruct minutes and financial accounts after allegations of misuse arose publicly were part of a process of self-vindication and deception. The government had provided the money solely to help improve literacy in underprivileged children but it was used for an unrelated and illegitimate purpose.

Wiltens, a lawyer for the Serious Fraud Office, which bought the case, said that Awatere Huata had a close and direct association with the Pipi Foundation and held a position of trust. She was also a former ACT Party member of parliament. “Public funds have gone into that trust and that is the money she has got her hands on, according to the jury” (Stickley 2005). Awatere Huata was convicted and imprisoned having been found guilty of fraud by a court of law and jury (Anon NZ Herald 2005d).

### **The Report of the Controller and Auditor-General**

In January 2003, the leader of the ACT New Zealand parliamentary party asked the New Zealand Controller and Auditor-General to undertake an inquiry into certain allegations of financial impropriety involving one of the ACT Party’s members, Donna Awatere Huata MP (member of parliament). The following information is restricted to the government funding of one organisation in which Awatere Huata has had an interest since her election to parliament in 1996 – the Pipi Foundation. The information in this section is drawn, in the main, from the report prepared by the Controller and Auditor-General (NZAO 2003) on completion of the inquiry into public funding of organisations associated with Awatere Huata. The focus of the inquiry was the integrity of the systems of public expenditure and the adequacy of the performance of the public entities that had entered into funding arrangements with Awatere Huata. The report describes the risks to the public administration system of MPs being involved in lobbying for funding proposals in which they have an interest.

### **The Four Minute Reading Program**

Awatere Huata developed the four minute reading program when she practiced as an educational psychologist in the 1970s and 1980s. The program was designed to improve the reading skills of underprivileged children, taking four minutes a day in the classroom, followed by four minutes reading at home. Parents are shown how to teach the child to read by a community worker who liaises between the school and the home. During her first term as an MP Awatere Huata decided to revive the program and seek government funding for it to be upgraded, evaluated and piloted. The Leader and Deputy Leader of the ACT Party were supportive of her proposal, but advised her to set up an independent trust which could be a vehicle for funding and delivery of the program. Awatere Huata’s parliamentary leaders were concerned about the need to ensure that arrangements were transparent and

completely independent from her or members of her family, and they repeated this need both orally and in writing to Awatere Huata.

The ACT Party leadership was alarmed by a letter which Awatere Huata wrote on 19 February 1999 to the Treasurer which gave the impression that she would withhold her parliamentary vote in support of the then government unless funding was made available to support the revival of the four minute program. The Deputy Leader of the ACT Party then spoke to the Minister of Education and conveyed an assurance that any risk of conflicts of interest involving Awatere Huata would be addressed.

Awatere Huata settled an incorporated charitable trust, the Pipi Foundation, in 1999. A trust deed was executed on 26 February 1999 and a copy was provided to the ACT Party. The founding trustees were people associated with Awatere Huata's local community, but without 'near relative connections to her or her husband's family. Later, her mother-in-law became a signatory and trustee of Pipi and in July 2002, Awatere Huata's husband became the Chairperson of the foundation. The ACT Party obtained legal advice in relation to the contents of the original trust deed. This legal advice raised a number of issues about the deed, including: definition of the trust's beneficiaries; the potential for Awatere Huata to benefit personally, or to be seen to be capable of doing so from Pipi's activities; Pipi's governance; and the need for Pipi to engage professional advisers. A second trust deed was executed on 4 May 1999.

Ownership of the four minute reading program and all her intellectual property was vested by Awatere Huata in the trust. She also vested her intellectual property in the Preschool Instruction for Parents Initiative (PIPI), a home-based program for newborn to three-year-old children targeted at disadvantaged families from which the Foundation gets its name, Pipi (NZAO 2003, p.35).

The Controller and Auditor-General's Report showed that Awatere Huata had various forms of direct or indirect association with the Pipi Foundation including the following:

- Making arrangements (at the outset) for a qualified educational psychologist who was a shareholder and former training manager for her company, IHI Communications and Consultancy Limited, to be engaged as project manager
- allowing IHI Communications and Consultancy Limited to be used as the vehicle for the project manager's fees to be invoiced to Pipi
- advocating for the release of government funding for the four minute reading program, and participating in various meetings and communications with officials concerning the funding contracts and their implementation as a spokesperson for, and at the request of, the Pipi trustees
- using her experience to provide ongoing advice to and mentoring of trustees and workers in relation to the program
- through Pipi using offices and facilities provided by Te Huawhenua Trust (an associated entity)
- through her mother-in-law becoming a trustee and signatory to Pipi's bank account (through the action of the trustees)

- through her own personal involvement in the financial administration of Pipi (including preparing cheques for signature by designated authorities)
- through her husband holding office as Chairperson of Pipi from July 2002, following the previous incumbent's removal and prosecution for misappropriation of Pipi funds (NZAO 2003, p.37).

### **Government Funding Policies**

The Controller and Auditor-General's Report states that Awatere Huata lobbied at least three Ministers when seeking funding for the four minute reading program. Each minister knew of Awatere Huata's professional interest in literacy and in the program. The government decided to make funding available and in December 1998, a funding proposal for the four minute reading program was discussed at a meeting of the Treasurer, the Minister of Maori Affairs, and officials. The meeting noted that the Treasurer and Minister of Maori Affairs had met with the Minister of Education and that he had agreed to meet the proposed cost of the four minute reading program. It was agreed in a Cabinet decision in April 1999 (CAB (99) M10/5(15)) that the four minute reading program would be updated and implemented in three low decile schools (a low decile school has a significant number of disadvantaged children) at a cost of NZ\$0.253 million per annum.

In the Awatere Huata fraud trial (August 2005) it was said that the Cabinet directed the Ministry to establish the four-minute reading program developed by Awatere Huata and the court was shown a Cabinet minute stamped "budget secret". Normally, it was said, the Ministry would have gone through a tendering process for such a program (Anon. NZ Herald 2005e). This matter was discussed in the Controller and Auditor-General's Report and it was recognised that Cabinet decisions to fund new initiatives can be made in different ways. Many decisions result from a policy-making process in which officials produce policy proposals for Ministers, based on the best evidence. Such a process enables prior consideration of the issues around the policy. Alternatively, parliamentary or other lobbying can bring matters before Ministers, resulting in decisions by Cabinet largely outside of the usual policy-making process. That is what happened in this case (NZAO 2003, p.51).

As a result of the Cabinet decision, the Ministry of Education entered into a funding contract with the Pipi Foundation in September 1999. The contract was renewed in 2000 and 2001. By July 2002, the program was being considered for wider research and evaluation. At this point, allegations were made concerning the contract with Pipi, and the Ministry's involvement with the program was suspended (NZAO 2003, p.50). The educational funding incentives identified in Table 1 had been provided to the Pipi Foundation from various government organisations.



**Table 1 Government funding arrangements to the Pipi Foundation**

Timeline	Event	Date	Funding agency	Amount NZ\$
Dec 1998	Treasurer discussion of proposal			
Apr 1999	Cabinet decision			
Sep 1999	Funding decision	06/09/1999	MOE	273 135
2000	Contract renewed	20/10/2000	MOE (roll-over)	240 157
		10/07/2001	CEG	40 000
2001	Contract renewed	30/07/2001	MOE (roll-over)	252 900
		14/08/2001	TPK	30 000
		10/06/2002	CEG	2 000
Jul 2002	Consideration for wider research & evaluation		Program suspended	

*Source: NZAO Report of the Controller and Auditor-General (2003), p.25.*

MOE = Ministry of Education

CEG = Community Employment Group

TPK = Te Puni Kokiri

### **Government Contracting Procedures**

The Ministry of Education had standard operating procedures applicable at the time of the contract with the Pipi Foundation. The standard operating procedures covered the proposal and selection process, setting up of the contract managing the contract, reviewing and reporting. The Controller and Auditor-General's Report concluded that, overall, the standard procedures complied with good practice at the time. However, circumstances surrounding the contract which made adherence to the procedures problematic were noted in the Report, including that the normal proposal and selection processes could not be applied. The major issues noted in the Report are now discussed.

#### ***Non-use of the standard proposal and selection processes:***

The Cabinet decision referred to the funding of the program, but not to a specific provider. The standard operating procedures required the Ministry to appoint a contractor to deliver the program by either advertising and calling for registrations of interest or proposals, or commissioning, an option to be used only in special circumstances. The proposal and selection process could not be used because the combined effect of the Cabinet decision and Awatere Huata's action of vesting ownership of the program in Pipi was that Pipi was the only possible provider. This meant there were no other proposals to indicate what other providers could have provided, or whether Pipi would actually be able to deliver (NZAO 2003, pp.53–54).

***Funding arrangements outside the normal criteria used:***

The Cabinet decision effectively provided NZ\$253 000 per annum as the amount of the funding. This meant an allocation of NZ\$84 000 per school, an amount far greater than what was normally made available to individual schools. The Ministry had to rely on costings of similar services to determine whether it was receiving value for money. The view of the Controller and Auditor-General was that, given Pipi was awarded 'special supplier status', the Ministry would have needed to have monitored, very rigorously, Pipi's capacity to deliver the services purchased, especially at the end of the first contract period. There was also a need to establish independent evaluation and value for money evaluation early in the process (NZAO 2003, p.55).

***Setting up the contract:***

Ministry officials had little information about how the annual funding amount of NZ\$253 000 had been arrived at, the nature of the program and the services that would be delivered, and why Pipi had to be contracted to deliver the services. There was some delay while officials present at the Ministerial discussion (December 1998) were contacted in an attempt to establish how the budgeted amount of NZ\$253 000 had been assessed. Subsequently, the Ministry had discussions with Pipi and undertook a costing exercise. A five-phase plan was developed which included the following components:

- A consultation period to establish a comprehensive needs analysis for redeveloping the program
- determining and creating materials to support the program and the identification of synergistic links with other reading programs
- the identification and training of teachers and community workers
- implementing the program and collecting baseline data
- an evaluation of baseline data to report to the Ministry about the program's effectiveness.

Milestones supported this plan, and details of the work required to meet each milestone were agreed (NZAO 2003, p.56).

Negotiations took place between the Ministry and Pipi after the first contract term, which led to the renewal of the funding arrangement for another year. Although the primary terms and conditions remained the same, the second contract extended the program to two new schools. It required monitoring and evaluation of the program in the new schools and an assurance that existing schools running the program were prepared for the conduct of an independent evaluation.

The Controller and Auditor-General's view was that in addition to assessing the capacity and capability of Pipi staff responsible for delivering the contracted service, the Ministry should have assessed the governance and accountability arrangements for Pipi. The Report recommends that the standard operating procedures should be extended to include coverage of:

- the legal status of the organisation including a review of its constituting documents to ascertain whether there is any potential for beneficial interest/personal gain on the part of any trustees



- the governance arrangements including checking that there is adequate segregation between the trustees and management. The contract provided for a project steering committee comprising the Pipi Foundation's Chairperson, a trustee, a project director and a support team member. One person, Skipworth, was both the Chairperson and the support team member during the terms of the first two contracts, and the project director during the term of the third contract. Skipworth was also Pipi's Treasurer throughout the three-year period.
- the ongoing financial viability of the organisation. For instance, audited financial statements would have provided some evidence that the trust's governing body was exercising oversight and ensuring financial accountability to stakeholders in accordance with the trust deed (NZAO 2003, p.58).

The independent evaluation was not undertaken. Instead a third contract was entered into for another year which provided for the conduct of the independent evaluation and it was not until the results of this evaluation had been received that the Ministry was first made aware of concerns about the ability of Pipi to effectively manage and develop the program. This was also about the time that allegations were made of possible misuse of funds by Pipi (NZAO 2003, pp.57–59). At this time the Ministry asked Pipi to forward a detailed breakdown of expenditure from the existing contract. Also, the Controller and Auditor-General expressed in the Report some surprise that the Ministry had not checked the composition and qualifications of members of the project steering committee as that membership changed, to ensure that there continued to be sufficient depth of experience and that different people filled the roles (p.59); and, that the costs of the services delivered for the preceding periods had not been checked before establishing the costs of the second contract (p.62).

It was also intended in the Cabinet decision that the program would be implemented in three schools classified as 'low decile' (disadvantaged). However, the final selection of schools comprised five schools, of which two were decile 3 primary schools (not classified as disadvantaged). This selection was contrary to both the contract and the Cabinet decision (NZAO 2003, p.61).

Mallard (2005) said that the Auditor-General's Report raised some specific contract management issues for government agencies and that it was a good reminder for all government organisations to ensure they have appropriate systems and procedures in place. "(I)t appears that the contracting process in respect of the Awatere Huata organisations was flawed from the start because of decisions made by Ministers in the previous government that undermined usual procedures." "(T)he report identifies several instances where agency policies and procedures were not followed correctly. In addition, the investigation found a number of areas around contract development, management and monitoring that need improvement."

The Controller and Auditor-General's Report, while acknowledging the difficulties faced by the Ministry in the contract administration, detailed several ways in which the setting up of the contract could have been improved. These are outlined as follows:

- Governance and accountability arrangements of the contractor should be assessed

- governance and management capability (e.g. the project directors and the steering committee) of the contractor should be assessed
- the length of the contract and the expected outcomes should be clear in the contract at the outset
- the detail of services to be provided should be sufficient to provide a basis for effective monitoring
- any deviation from a Cabinet decision should first be revisited with the Cabinet
- targeting of services needs to be transparent, taking into account possible perceptions of conflict of interest
- the actual costs of service delivery under a first contract should be checked before establishing the costs of a subsequent contract
- contracts need to contain greater specificity on the treatment of surpluses
- a check should be made that the contractor is not being paid other public funds for the same or similar services
- intellectual property rights are explicitly protected (NZAO 2003, p.64).

***Contract management:***

The Ministry of Education's standard operating procedures detailed what Ministry officials were expected to do to manage contracts. The contract document also provided the Ministry with the right to receive and access information in order to monitor the contract. In particular the contract listed the work expected to be done; required 3-monthly progress reporting; required detailed disbursement schedules providing full summary of payments within milestone periods; required Pipi to undertake formative evaluation over the duration of the contract; provided for an annual review to discuss Pipi's performance in delivering the services and its financial statements; and reserved the Ministry's right to observe delivery of the program, review records and interview providers and participants, and evaluate the program (NZAO 2003, pp.64–66).

Criticism was made in the Controller and Auditor-General's Report, of the contract management, in the following respects. No Review Committee was established, nor was there independent advice to oversee the implementation of the program. Evidence was not available to show that issues of concern identified during site visits had been followed up, and only two of the three required site visits were undertaken.

***Governance and accountability:***

Pipi Foundation provided the Ministry with summary schedules showing the total budget and actual professional fees, professional costs and operational costs. A full summary of payments associated with the achievement of each milestone was not provided. Full disclosure was especially relevant to this particular contract, in that it was not subject to the normal contestable process and so the costs of the services had not been market tested. Only one annual review had been undertaken in late-June 2000. There was no evidence that annual reviews covering the other two contract terms had been performed. Pipi failed to provide the Ministry with financial statements; therefore these could not be discussed at the annual review. A view expressed in the Controller and Auditor-General's Report was that audited financial statements would have provided evidence that Pipi's governing body was exercising oversight and ensuring appropriate financial accountability to stakeholders in accordance with the Trust deed (p.68).

### **Conflict of Interest**

There was some surprise expressed in the Controller and Auditor-General's Report that the Ministry had not taken clear steps to manage the risks around Awatere Huata's close involvement in the program (p.67).

Awatere Huata admitted lying to the ACT Party leader over her involvement in the government-funded Pipi Foundation. In evidence at her fraud trial, Awatere Huata said she had given an assurance that she would keep "at arm's length" from running of the charitable trust which helps underprivileged children. She said that as she was lobbying for government funds, there was a possible conflict of interest. Awatere Huata said she told the ACT Party leader in a letter that she was keeping her distance from the trust. However, when cross-examined by Serious Fraud Office prosecutor, Fardell, she admitted she was trying to conceal her involvement in the foundation (Anon. NZ Herald, 2005f).

### **Internal Controls**

Evidence revealed during Awatere Huata's fraud trial pointed to either the complete absence or woeful inadequacies in the internal controls of the Pipi Foundation. When a number of financial transactions and records were queried, the prosecutor, Fardell, pointed out alleged discrepancies, inconsistencies, "coincided" and backdated invoices. Fardell pointed out that some invoices did not tally and in relation to one cash cheque added up to \$39 000, some \$8 000 more than the cheque value. The Serious Fraud Office maintained that invoices were concocted later to try to cover up illegal use of Pipi money. Awatere Huata said records had been replaced or reconstructed to make up for a lack of documentation and there was no malicious intent. They were never intended to be put forward as original documents, she said (Anon. NZ Herald 2005f).

In earlier evidence, Skipworth said she and Hine Huata, a trustee and mother of Awatere Huata's husband, Wi Huata, were the authorised signatories who pre-signed cheques "until our hands felt sore", sometimes a whole cheque book on Awatere Huata's instructions (Gregory 2005). Skipworth said Awatere Huata kept and had total control of the chequebooks and the Huatas were "not to be questioned". The trust never held meetings and the trustees were only names on paper used "like puppets" (Gregory 2005).

In response, Wi Huata's legal representative, Wade, told the jury the Crown relied on the word of one of the cheque signatories, Skipworth, but they had only half the picture as another signatory, Hine Huata, had since died. Skipworth, who was stealing money from the Pipi Foundation, Wade said, was hardly an impartial witness (Anon. NZ Herald 2005c).

### **Summary**

It is difficult to deny the importance of good financial data when assessing project performance, although financial indicators alone may not always capture all the strengths and weaknesses of a project. Many non-financial metrics such as project tasks, milestones, and student outcomes were identified in the contracts underpinning the government funding allocations to the Pipi Foundation. Yet important weaknesses in the application, measurement and assessment of financial and non-financial data were exposed by the Controller and Auditor-General in the examination of contract management of government

funding allocations to organisations associated with Awatere Huata. For instance, a basic principle of internal control over resources is the need for separation of duties and functions within an organisation. The governance and management of the Pipi Foundation did not support this principle. The Foundation's potential for underperformance and its actual non-compliance with contractual obligations were not managed effectively by the government funding agencies involved.

Furthermore, the potential for conflict of interest should be assessed, monitored and resolved. The nature of Awatere Huata's position and conduct when public funds were involved could reasonably be expected to have alerted government officials to the need for vigilance in the monitoring of potential or actual conflict of interest in relation to organisations with which she had an association or in which she had an interest. Indeed, the Controller and Auditor-General's Report expressed an expectation that steps would have been taken by government funding agencies to manage the risks around Awatere Huata's close involvement with the Pipi Foundation and the four minute reading program.

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## INSTRUCTORS' NOTES

### Case Description

*The primary subject matter of this case is the procedure for contract management in relation to the application for and granting of government funding to organisations. A secondary issue examined in the case concerns the adequacy and effectiveness of governance and accountability controls within organisations receiving public funds for the external supply of services. The case requires an understanding of audit planning and good governance and accountability principles.*

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### Case Synopsis

This case study focuses on major issues raised in the Report of the Controller and Auditor-General on its 'Inquiry into Public Funding of Organisations Associated with Donna Awatere Huata MP' (NZAO 2003) and the subsequent fraud trial of Awatere Huata in August 2005. The initial task for the student is to review the policies and procedures of the government organisations providing funding to applicant organisations, and the internal accounting, governance and accountability structures of the fund recipients. Students can then use the details provided in the case information and references to develop internal control and corporate governance strategies appropriate for use in an environment characterised by the need for accountability for public funds.

### Recommendations for Teaching Approaches

Carnegie, Gavens and Gibson (1996) suggest that a primary objective of case study instruction is to introduce realism into the classroom and to stimulate ideas and discussion based on the realistic application of procedures and practice. Case studies do not represent a book of exercises in the traditional sense, and so they should not be used in a similar manner. Instead, case studies should be used in conjunction with a suitable book of exercises or instructional text. Case studies are best discussed in the classroom prior to students being exposed to them individually as this approach enables the instructor to direct attention to issues considered relevant at the time.

Accordingly, the teaching of this case study proceeds by classroom instruction in the principles and practice of good corporate governance and the nexus with the audit function and process. The case study analysis is used to demonstrate the principles, practice and processes in a realistic setting. As students do not often have the opportunity to view accounting in its proper perspective the case study provides the student with an opportunity to critically analyse weaknesses and opportunities within a contextual setting and to offer considered solutions. The case study also affords the student an opportunity to develop



team skills by discussing the relevant issues with colleagues and peers within a classroom setting. Apart from classroom instruction and group discussion, other useful methods of analysing this case study include individual assignment and report writing.

The questions that follow are varied so as to provide the maximum student stimulation.

## Specific Questions

These questions cover issues raised in the case study material, the references relating to the *Report of the Controller and Auditor-General on the 'Inquiry into Public Funding of Organisations Associated with Donna Awatere Huata MP'*, and the later Awatere Huata fraud trial, and the principles and practice of accountability and good corporate governance in relation to public funding.

**Question 1** In 2001 the Pipi Foundation received funding from three government organisations (the Ministry of Education, the Ministry of Maori Affairs [Te Puni Kokiri], and the Community Employment Group) (see Table 1). Identify the risks and corporate governance and accountability issues arising when project funding is received from more than one government organisation.

**Question 2** Comment on the standard of the monitoring controls that were exercised by the government organisations in respect of funding to the Pipi Foundation. Present your answer as indicated by the following table.

Expected monitoring controls	Deviations

**Question 3** Outline appropriate procedures for the management of employees' potential 'conflicts of interest'. Present your answer as indicated by the following table.

Potential conflict	Procedure

**Question 4** In respect to the following components of an internal control framework and based on the evidence from the Awatere Huata fraud trial:  
 (1) provide a definition of the component, and  
 (2) identify one deviation from the component.  
 Present your answer as indicated by the following table.

Component	Definition	Deviation
Control environment		
Risk assessment		
Control activities		
Information and control		
Monitoring		

**Question 5** List the deviations from generally accepted internal control procedures for cash payments that were raised in the Awatere Huata fraud trial. Present your answer as indicated by the following table.

Deviation	Internal control objective	Expected internal controls

**Question 6** Prepare an audit program for cash payments that would enable you to form an opinion about the validity of cheques made by the Pipi Foundation.

**Question 7** Prepare a report for submission to the Minister of Education on internal control, corporate governance and accountability issues raised by the Awatere Huata affair, and your proposals for structural improvements.

### REFERENCES FOR INSTRUCTORS' NOTES

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